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Letter dated 1 November 2017 from the Secretary-General addressed to the President of the Security Council

Pursuant to Security Council resolution 1031 (1995), I have the honour to transmit the fifty-second report on the implementation of the Peace Agreement on Bosnia and Herzegovina, covering the period from 22 April to 21 October 2017, which I received from the High Representative for Bosnia and Herzegovina (see annex).

I should be grateful if you would bring the report to the attention of the members of the Security Council.

(*Signed*) António **Guterres**

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Annex

Letter dated 24 October 2017 from the High Representative for Bosnia and Herzegovina addressed to the Secretary-General

Pursuant to Security Council resolution 1031 (1995) of 15 December 1995, in which the Council requested the Secretary-General to submit to the Council reports from the High Representative on the implementation of the Agreement, in accordance with annex 10 to the General Framework Agreement for Peace in Bosnia and Herzegovina and the conclusions of the London Peace Implementation Conference of 8 and 9 December 1995, I transmit herewith the fifty-second report of the High Representative for Implementation of the Peace Agreement on Bosnia and Herzegovina. I would ask that the report be distributed to the members of the Council for their consideration.

This is my eighteenth regular report to the Secretary-General since assuming the post of High Representative and European Union Special Representative on 26 March 2009. The present report covers the period from 22 April to 21 October 2017.

Should you or a member of the Security Council require any information beyond what is provided in the report or have any questions regarding its contents, I would be pleased to provide you with that information.

(*Signed*) Valentin **Inzko**

Fifty-second report of the High Representative for Implementation of the Peace Agreement on Bosnia and Herzegovina

Summary

The present report covers the period from 22 April to 21 October 2017. Although the general elections in Bosnia and Herzegovina, set for 2018, are a full year away, the country's political leaders have already shifted their focus away from economic reforms towards divisive, nationalistic issues, which, in fact, have never been completely sidelined. The political parties, in pre-election campaign mode, have hardened their already polarized positions on several contentious issues. In its conclusions of 16 October, the Foreign Affairs Council of the European Union expressed regret that a divisive rhetoric rooted in the past and an early electoral agenda had slowed the pace of reform and affected the political climate.

On the positive side, Bosnia and Herzegovina took some steps to implement the reform agenda and continued work on compiling answers to the European Union questionnaire. In addition, Bosnia and Herzegovina signed a transport community treaty with the European Union and five other countries in the Western Balkans in September. The treaty opens the door to infrastructure developments and improvements in the transport sector, and enables the signatories to harmonize their transport laws with those of the European Union.

Disagreement continued during the reporting period with regard to changes to the country's electoral rules. In July, the Constitutional Court of Bosnia and Herzegovina struck down provisions of the election law regulating the indirect election of delegates to one of the chambers of the Federation Parliament. The Court had previously declared those provisions unconstitutional, agreeing in part with the appellant that the rules should be changed to ensure legitimate representation in the election of Serb, Bosniak and Croat members to the Federation House of Peoples.

Political parties hold opposing views as to whether the indirect elections to the Federation House of Peoples will be able to move forward after the general elections of 2018 if the gap in the law is not filled. If the Federation House of Peoples is not formed after the next set of elections, that would likely prevent the formation of a Federation Government and the formation of one chamber of the State-level Parliament, the Bosnia and Herzegovina House of Peoples. There are precedents for such blockages: delays in forming the Federation House of Peoples occurred in 2001, 2007 and 2011, and each time the High Representative intervened to unblock its establishment.

Despite those risks, the parties in the State Parliament have not yet begun a serious political dialogue to discuss potential amendments to the Bosnia and Herzegovina Election Law addressing the issue. At its June meeting, the Steering Board of the Peace Implementation Council called on the relevant authorities to ensure that all necessary conditions were met, including an appropriate legal framework, to enable the smooth conduct and implementation of the general elections in 2018.

As I reported six months ago, the President of the Republika Srpska, and other members of his party, the Alliance of Independent Social Democrats (SNSD), have reduced the frequency of calls for the secession of the Republika Srpska and the dissolution of Bosnia and Herzegovina following the imposition of travel and financial sanctions against the President of the Republika Srpska by the United

States of America in January 2017. In September, party representatives announced that the threat of holding a referendum on the status of the Republika Srpska, which had been part of the official platform of SNSD since 2015, would be taken off the table for the time being. However, the President of the Republika Srpska, Milorad Dodik, subsequently made numerous statements supporting the eventual independence and union with Serbia of the Republika Srpska. Similarly, some Croat politicians continued to advocate for the reorganization of the country along ethnic lines.[a]

Under the authority vested in me under annex 10 of the General Framework Agreement for Peace, I take the present opportunity to reiterate that the entities have no right to secede from Bosnia and Herzegovina and that the Framework Agreement guarantees the sovereignty and territorial integrity of Bosnia and Herzegovina and the internal constitutional position of the entities.

Another constitutional issue that will need to be followed closely relates to the rejection of the authority of the Court of Bosnia and Herzegovina and the Office of the Prosecutor in Bosnia and Herzegovina in the Republika Srpska. The President of the Republika Srpska repeated calls for Serb members of the State judiciary to withdraw from those institutions, following a controversial war crimes acquittal by the Bosnia and Herzegovina State Court in October.

Also of concern is the fact that a decision by the Republika Srpska National Assembly in 2015 to hold a referendum on the Bosnia and Herzegovina judiciary and the authority of the High Representative, which had been set aside, was allowed to enter into force on 20 September 2017. While the President of the Republika Srpska initially announced that this was being done so that the decision could be formally suspended, he has since hinted that the referendum could take place as currently scheduled on November 19, or rescheduled for a later date. As I have stated in my previous reports to the Secretary-General, that decision represents a violation of annexes 4 and 10 to the General Framework Agreement for Peace and, consistent with my previously expressed position, I call on the Republika Srpska authorities to put that decision out of force.

In October, the Republika Srpska National Assembly adopted a resolution on the protection of the constitutional order and assuring the military neutrality of the Republika Srpska, which asserted the entity's neutrality vis-à-vis integration with the North Atlantic Treaty Organization (NATO) and sought to redefine the position and obligations of the entity under the General Framework Agreement for Peace, in particular under the Constitution, as set forth in annex 4. In response, I have made it clear that the Framework Agreement, including the Constitution, prevails over any act adopted by the Republika Srpska National Assembly and that foreign policy is an exclusive responsibility of the State institutions.

[a] "As for the reactivation of Herzeg-Bosna, if the election law is not amended by the end of the year, [Croatian Peasant Party] will demand a return to an earlier arrangement, before the Washington and Dayton agreements, and that would be the Croat Republic of Herzeg-Bosna. We will also approach [the Croat People's Assembly], asking them to make this their official position." Mario Karamatić, *EuroBlic*, 14 August 2017. "What we request is that the Constitution of [Bosnia and Herzegovina] be changed and that is being worked on both in [Bosnia and Herzegovina] and much further from [Bosnia and Herzegovina]. And in those solutions, all those areas that were protected by the [Croatian Defence Council] will be parts of the territory in which Croats will live in [Bosnia and Herzegovina]. Have no doubt about that." Dragan Čović, *TV1*, 22 June 2017.

I. Introduction

1. This is my eighteenth periodic report to the Secretary-General since assuming the post of High Representative for Bosnia and Herzegovina in 2009. It provides a narrative of progress made towards attaining goals outlined in previous reports, registers factual developments, logs citations relevant to the reporting period and provides my impartial assessment of the implementation of key areas falling under my mandate. I have focused my efforts on addressing those areas, in line with my responsibility to uphold the civilian aspects of the General Framework Agreement for Peace. In that respect, I have consistently encouraged the Bosnia and Herzegovina authorities to make progress on the five objectives and two conditions necessary for the closure of the Office of the High Representative, and have worked to preserve previous measures undertaken to implement the Framework Agreement.

2. I continue to direct my energies towards meeting my mandate as defined under annex 10 of the General Framework Agreement for Peace and relevant Security Council resolutions. Additionally, my Office fully supports the efforts of the European Union and the North Atlantic Treaty Organization (NATO) to assist Bosnia and Herzegovina in moving towards closer integration with those bodies.

II. Political update

A. General political environment

3. As noted at the outset of the present report, the authorities in Bosnia and Herzegovina need to address several pending issues, and the political parties have already begun their pre-electoral campaigns a full year ahead of the general elections to be held in October 2018. In such an environment, in which political differences are hardened and ethnic divisions are exploited and amplified, the need to address real reforms is both challenging and urgent.

4. At the State and Federation levels, political disputes among the parties within the ruling coalition have reduced the chances for meaningful progress. The predominantly Bosniak Union for a Better Future of Bosnia and Herzegovina (SBB) has openly sided with opposition parties in rejecting a report on the performance of the Bosnia and Herzegovina Council of Ministers, leading to calls from the predominantly Bosniak Party of Democratic Action (SDA) for SBB to leave the coalition. Relations between SDA and the Croat Democratic Union of Bosnia and Herzegovina (HDZ Bosnia and Herzegovina) have also soured over differing views on the need for changes to the Bosnia and Herzegovina Election Law, the resolution of Mostar's electoral system and the method of electing members to the Bosnia and Herzegovina Presidency. A lack of political dialogue and cooperation between SDA and HDZ Bosnia and Herzegovina has similarly stalled work in the Federation, where several key items of legislation remain unaddressed.

5. In the Republika Srpska, opposition parties reacted strongly after the President of the Republika Srpska, Milorad Dodik, and his ruling coalition successfully pressured the Auditor General of the Office of Supreme Auditing of the Republika Srpska to resign over an unfavourable audit of entity finances. When the leadership of the Republika Srpska National Assembly removed discussion of the issue from the parliamentary agenda on 12 September, opposition delegates disrupted the session. Republika Srpska police, reportedly acting at the request of the leadership of the Republika Srpska National Assembly, physically separated the ruling majority and opposition delegates, while the majority continued the session in a separate, smaller hall to which opposition delegates were denied access. Controversy was

also generated by reports that police officers with weapons were present inside the parliament building.

6. Corruption and a lack of respect for the rule of law remain serious problems, as authorities at all levels consistently disregard or even reject binding decisions of the judiciary. The Republika Srpska continues to disregard judgments of the Court of Bosnia and Herzegovina and the Constitutional Court of Bosnia and Herzegovina concerning the registration of defence property, while the Federation parties show no commitment to reaching political agreement on the enactment of amendments to the Bosnia and Herzegovina Election Law in compliance with Constitutional Court decisions, potentially hampering the implementation of the general elections of 2018 and continuing to leave Mostar deprived of any way to enable the holding of local elections.

7. The continued failure by the authorities to implement the rulings of the European Court of Human Rights in *Sejdić and Finci* and related cases also reflects the overall disregard for the rule of law. As a result, under the current system, certain groups have been discriminated against for more than two decades with regard to their right to hold political office.

8. As in the previous period, Bosnia and Herzegovina authorities failed to act in their own self-interest and complete several measures at the State and Federation levels to allow the second disbursement of funds under the Extended Fund Facility of the International Monetary Fund (IMF).

9. There were some positive developments in terms of regional relations during the reporting period, in particular the official visit of the President of Serbia, Aleksandar Vučić, to Sarajevo in September. Although the President had visited Bosnia and Herzegovina several times in his former capacity as Prime Minister, that visit marked the first by a Serbian Head of State since 2011.

B. Decisions of the High Representative during the reporting period

10. Despite ongoing challenges to the rule of law and the General Framework Agreement for Peace during the reporting period, I have refrained from using my executive powers, in accordance with the policy of the Steering Board of the Peace Implementation Council of emphasizing "local ownership" over international decision-making.

C. Five objectives and two conditions for closure of the Office of the High Representative

Progress on objectives

11. As in the previous period, the Bosnia and Herzegovina authorities have made only limited progress towards meeting the requirements of the five objectives and two conditions set by the Steering Board of the Peace Implementation Council as prerequisites for the closure of the Office of the High Representative.

Defence property and State property

12. The process of the registration of prospective defence property under the ownership of the State of Bosnia and Herzegovina continued. The term "prospective defence property" refers to a defined list of immovable assets that are needed by the Armed Forces of Bosnia and Herzegovina and should be registered to the Bosnia and Herzegovina State in line with the Bosnia and Herzegovina Constitution, the

Agreement on Succession Issues, the Bosnia and Herzegovina Law on Defence and relevant decisions of the Bosnia and Herzegovina Presidency. In addition to being part of the conditions under the NATO membership action plan for the participation of Bosnia and Herzegovina, progress on the issue is one of the outstanding objectives set as a prerequisite for the transition of the Office of the High Representative.

13. Concerning the registration of prospective defence property located in the Federation, 26 military locations have been successfully registered to date, while several other properties are in various phases of the registration process. The competent State-level institutions have expedited their efforts to drive the process forward, which is mainly focused on clarifying and resolving various technical legal difficulties related to some prospective defence locations.

14. Unfortunately, the registration process for prospective defence property located in the territory of the Republika Srpska remains blocked owing to political obstruction, as the Republika Srpska Administration for Geodetic and Property Affairs has rejected several registration requests due to what they allege is their "non-existence of a valid legal basis". In several public statements, high-ranking Republika Srpska officials have made it clear that the authorities have no intention of implementing the final and binding decision of the Court of Bosnia and Herzegovina in the case of the prospective defence location in Han Pijesak, thereby openly violating the principle of the rule of law. On 6 July 2017, the Constitutional Court of Bosnia and Herzegovina rejected the Republika Srpska motion challenging the final decision of the Court of Bosnia and Herzegovina in the Han Pijesak case.

15. Concerning the wider issue of defence property and State property and its apportionment between different levels of government, progress remains elusive. There is an urgent need for the adoption of comprehensive State-level legislation that fully acknowledges and adopts the principles of the ruling of 13 July 2012 of the Constitutional Court of Bosnia and Herzegovina.

Fiscal sustainability

16. The Office of the High Representative continued to track, analyse and inform its international partners on developments related to fiscal sustainability, including developments in the Bosnia and Herzegovina Fiscal Council and the Governing Board of the Indirect Taxation Authority of Bosnia and Herzegovina.

17. The Bosnia and Herzegovina Fiscal Council met more frequently than in the previous period, but focused almost solely on reaching agreement on the Global Framework of Fiscal Balance and Policies for 2018–2020. The Framework includes key parameters and projections required for budget planning, and should have been adopted in May to allow for the timely preparation and adoption of State and entity budgets for 2018. However, dissenting views within the Bosnia and Herzegovina Fiscal Council concerning the upper limit for financing State institutions in 2018, and their share in indirect tax revenues for 2018, made any agreement impossible until October.

18. Specifically, the Republika Srpska opposed any increase in the budget of the State institutions, while the State and the Federation considered a minimal increase necessary to cover the purchase of equipment for firefighting purposes nationwide, as well as new expenditures in 2018, such as those for the general elections and those stemming from the parliamentary adoption of a salary increase for State-level police officers. In the end, the Framework adopted on 4 October locked the overall budget of State institutions and their share in indirect tax revenues at the same amount it has been since 2012.

19. While the Governing Board of the Indirect Taxation Authority met relatively regularly during the reporting period, the quality and the quantity of its work declined. The Board consistently failed to adopt revenue allocation coefficients and settle inter-entity debts pursuant to its Rulebook on Coefficient Calculation and Payments to the Entities. Finance ministers continued the practice of agreeing on agenda items in advance of Board meetings, bypassing the experts and the Board itself. Also evident were disagreements over issues of relevance to IMF and the European Bank for Reconstruction and Development, in particular concerning the excise tax-related legislation aimed at generating additional revenue for road and highway construction.

Brcko District

20. My Office continued to provide expert assistance to the Brcko District authorities, at their request, in preparing by-laws and addressing other issues for the implementation of four key pieces of financial legislation adopted in June 2016, which aim to further integrate the Brcko District with the Bosnia and Herzegovina legal system, facilitate implementation of the Bosnia and Herzegovina economic programme negotiated with IMF and empower the District with instruments for increasing fiscal transparency, fighting the grey economy and generating revenues. My Office also provided support to the Brcko District Finance Directorate in preparing a new law on budget.

21. In May, the Brcko District authorities sought the intervention of the Brcko Supervisor and the assistance of my Office with regard to the failure of the Brcko District Judicial Commission to appoint a Brcko District representative to the High Judicial and Prosecutorial Council. Initially, the Commission appointed a person who was not eligible under the rules and the decision of the Council, thereby bringing into question the legality of the future work of a Council with an illegally elected member. Following multiple interventions, the situation has been corrected in line with the law.

22. Although the decision on *Amendments to the Decision on Protection of Civilian Victims of War* entered into force on 18 June 2015, correcting discriminatory provisions for the victims of rape and sexual abuse in Brcko, the decision has thus far not been implemented.

Entrenching the rule of law

23. During the reporting period, my Office continued to provide assistance and support to the Bosnia and Herzegovina authorities in implementing the Bosnia and Herzegovina Law on Foreigners adopted in 2015 and the Bosnia and Herzegovina Law on Asylum adopted in 2016.

D. Decision of the Constitutional Court of Bosnia and Herzegovina in the "Ljubić case" and its impact on the Election Law

24. On 1 December 2016, the Constitutional Court of Bosnia and Herzegovina adopted a decision on the so-called "Ljubić case", which concerned the request of the current President of the Main Council of the Croat People's Assembly, Božo Ljubić, for a review of the constitutionality of the provisions of the Bosnia and Herzegovina Election Law pertaining to the election of delegates to the Federation House of Peoples. The Court established that several provisions were not in conformity with article I (2) of the Constitution of Bosnia and Herzegovina, and ordered the Bosnia and Herzegovina Parliamentary Assembly to harmonize those

provisions with the Constitution no later than six months from the date of delivery of its decision.

25. In April 2017, the Croat caucus of the Bosnia and Herzegovina House of Peoples proposed amendments to the Bosnia and Herzegovina Election Law, which aim to address the Ljubić decision. However, in addition to regulating the indirect election to the Federation House of Peoples, the amendments also regulate the election of the members to the Bosnia and Herzegovina Presidency and address the electoral issue in Mostar. The amendments were adopted in the Bosnia and Herzegovina House of Peoples on 19 July, but their adoption in the Bosnia and Herzegovina House of Representatives appears unlikely.

26. In the meantime, since the Bosnia and Herzegovina Parliamentary Assembly failed to harmonize the provisions of the Bosnia and Herzegovina Election Law with the Constitution of Bosnia and Herzegovina by the established deadline of 30 June, the Constitutional Court of Bosnia and Herzegovina adopted a ruling on non-enforcement on 6 July, which repealed the provisions.

27. HDZ Bosnia and Herzegovina and SDA continue to focus on the issue of whether elections for the Federation House of Peoples in 2018 could proceed following the repeal by the Constitutional Court of Bosnia and Herzegovina of the provisions of the Bosnia and Herzegovina Election Law it deemed unconstitutional. SDA has promised its own proposal of amendments to the Bosnia and Herzegovina Election Law, but to date has not submitted anything into parliamentary procedure.

28. My Office will continue to closely follow the developments regarding the implementation of the decision in the "Ljubić case" and its eventual impact on the upcoming general elections in 2018, and on the process of government formation thereafter.

E. Challenges to the General Framework Agreement for Peace

Challenges to the sovereignty and territorial integrity of Bosnia and Herzegovina

29. During the reporting period, there were numerous statements that challenged the territorial integrity and sovereignty of Bosnia and Herzegovina. The President of the Republika Srpska was again the most frequent and vocal exponent of such proclamations, which included referring to Bosnia and Herzegovina as a failed State, referring to the Republika Srpska as a State and Bosnia and Herzegovina as a mere union of States and calling for the unification of Republika Srpska and Serbia.[1] He also

[1] "What state of Bosnia-Herzegovina? The state of Bosnia-Herzegovina does not exist. Bosnia-Herzegovina exists as foreseen in Dayton. That is not a state, it is a state union, or union of states. It is no kind of state." Milorad Dodik, *RTRS*, 18 October 2017. "One hears more and more on the international scene and [from] many analysts, reporters and historians that [Bosnia and Herzegovina] is a failed state. It may be time to start talking about a peaceful breakup in [Bosnia and Herzegovina] ... because this kind of [Bosnia and Herzegovina] with massive interventionism by the international community has failed, as such, [and] it is obviously in the definition of failed states." Milorad Dodik speaking to journalists in Zvornik, *FENA*, 5 October 2017. "And this is not the first time in this part of the world that there are two Serb states, like now there are Republika Srpska and Serbia ... Our position in [Bosnia and Herzegovina] is not finished. We are forced into it ... Do I have to say again that we want to be again together with Serbia?...And I do not want to give up on my dream that the [Republika Srpska] and Serbia are one ... In the sense of a state, in the political sense and in the national sense." Milorad Dodik, at the opening event of "Days of the [Republika Srpska] in Serbia" in Belgrade, 15 September 2017. "I believe that in this century the Serb people will have the right to be one, because of their suffering in the past. And that it is completely natural for us to be together. And when I say together, that means together in the territorial and state sense, to avoid any doubts. Because we are together anyway." Milorad Dodik, *FENA*, 4 August 2017.

sparked controversy by referring to the return of Bosniak refugees and displaced persons ethnically cleansed from eastern Bosnia as an "occupation".[2]

Challenges to the authority of State-level judicial institutions

30. The President of the Republika Srpska has repeated his calls for Serb judges to withdraw from State judicial institutions[3] and clearly voiced his opposition to the implementation of the decision of the Court of Bosnia and Herzegovina on the registration of prospective defence property in Republika Srpska territory. In a 29 August meeting of Republika Srpska ruling coalition leaders, plans were announced to adopt a law banning the registration of such property in the Republika Srpska without the consent of the Republika Srpska National Assembly.

Potential Republika Srpska referendum on the State judiciary and the authority of the High Representative

31. I previously reported on a decision by the Republika Srpska National Assembly in July 2015 to hold a referendum in the Republika Srpska on the validity of the legislation on the Court of Bosnia and Herzegovina and the Office of the Prosecutor in Bosnia and Herzegovina, and the applicability of the decisions of those institutions on the territory of that entity, as well as on the authority and decisions of the High Representative.

32. In the report, I made it clear that, while the Republika Srpska authorities have the right to organize referendums on matters falling within the constitutional responsibilities of the entity, the referendum at hand addressed areas outside that authority and constituted an open challenge to the sovereignty of Bosnia and Herzegovina and a violation of the commitments and obligations of the Republika Srpska arising under the Bosnia and Herzegovina Constitution as set forth in annexes 4 and 10 to the General Framework Agreement for Peace. The Council of the European Union also expressed its serious concern about the potential referendum in its conclusions of 12 October 2015, saying that it would challenge the cohesion, sovereignty and territorial integrity of Bosnia and Herzegovina.

33. At the time, the authorities in Republika Srpska ultimately decided to put the planned referendum aside, and the decision of the Republika Srpska National Assembly was never published in the *Republika Srpska Official Gazette* and thus did not enter into force. However, in September 2017, the 2015 decision was published and came into force, following criticism by the opposition in the Republika Srpska against the authorities for failing to publish a duly adopted act of the entity's Parliament. At that time, the President of the Republika Srpska explained that the act would soon be suspended or taken out of force.

34. While I very much welcome the stated intention of the authorities of the Republika Srpska to take that anti-Dayton decision out of force, I note with concern that this has not yet been done, since the decision provides for the referendum to be held in November.

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[2] "We are aware of projects of various foundations, primarily Islamic, that have requested or just directed their money, so Muslims would return here along the Drina River, after the homeland war and thereby occupy the Drina again ..." Milorad Dodik, speaking to journalists in Bratunac, 7 July 2017.

[3] "We call on Serbs in [Bosnia and Herzegovina] institutions to support their withdrawal until a new Law on the Court of [Bosnia and Herzegovina] and Prosecutor's Office with clear competences is enacted, particularly when it comes to selection of judges and prosecutors whose selection would be conducted in legislative bodies at all government levels, until which time every decision-making at the level of [Bosnia and Herzegovina] should be halted." Milorad Dodik, *SRNA*, 14 October 2017.

Republika Srpska National Assembly resolution on the protection of the constitutional order and assuring the military neutrality of the Republika Srpska

35. At its session on 17 and 18 October 2017, the Republika Srpska National Assembly adopted a resolution on the protection of the constitutional order and assuring the military neutrality of the Republika Srpska. The resolution has not yet been published as it has yet to be considered by the Republika Srpska Council of Peoples.

36. In terms of military neutrality and the relationship of Bosnia and Herzegovina to NATO, the resolution proclaims the "military neutrality of Republika Srpska in relation to existing military alliances until such time as a possible referendum on this matter is scheduled in Republika Srpska that would make a final decision on this issue".

37. Setting aside the specific issue of the relationship of Bosnia and Herzegovina to NATO, the resolution is problematic in other respects. It asserts that the constitutional order of Bosnia and Herzegovina, as set forth in annex 4 to the General Framework Agreement for Peace, was created by the entities and can be changed only by their agreement. Under that view, the Republika Srpska asserts that it is entitled to unilaterally dictate certain policy matters falling within the exclusive jurisdiction of the State and contrary to the existing decisions of the State. In that case, the Republika Srpska would be able to make proclamations on "military neutrality", despite the exclusive competency of the Bosnia and Herzegovina State for foreign policy under the Constitution, and despite the fact that the Bosnia and Herzegovina Presidency and other institutions have already passed decisions on that issue.

38. The resolution also attempts to use provisions about the territory of the entities under the General Framework Agreement for Peace in order to prevent the registration of State and defence property in the territory of the Republika Srpska in the name of the State. That goes against final and binding decisions of the Constitutional Court of Bosnia and Herzegovina, the Court of Bosnia and Herzegovina and existing State legislation. The resolution claims that such registration would represent a "violation of the constitutional order and international law and would not have a legal effect". It relies on the incorrect assumption that any registration of real estate property under the name of the Bosnia and Herzegovina State would be the equivalent of reducing the territory of the Republika Srpska.

39. The resolution also asserts the entity's right to coordinate its future status with Serbia, as a signatory to the General Framework Agreement for Peace. It is worth mentioning in that context that the Constitution of Bosnia and Herzegovina does allow the entities to develop special parallel relations with neighbouring States; however, such arrangements must be implemented in full accordance with the Constitution and the sovereignty and territorial integrity of Bosnia and Herzegovina, which includes full respect for foreign policy as a constitutional responsibility of State institutions.

40. Finally, the resolution seeks to compel both Republika Srpska officials and officials in the State institutions elected from the Republika Srpska to advance the views taken in the resolution, and foresees possible legal sanctions for those who do not comply.

Glorification of war criminals

41. On 8 June, the Croat People's Assembly, a political organization of Croat parties in Bosnia and Herzegovina, supported the organization of a concert in Mostar in support of six officials of the former Croat Republic of Herzeg-Bosnia,

whom the International Tribunal for the Former Yugoslavia had convicted and sentenced in the first instance to a total of 111 years of imprisonment.

Issue of foreign fighters

42. During the reporting period, the relevant Bosnia and Herzegovina authorities reported that there were no new departures by citizens of Bosnia and Herzegovina to join Islamic State in Iraq and the Levant (ISIL). The Office of the Prosecutor in Bosnia and Herzegovina continues to prosecute citizens of Bosnia and Herzegovina who have left or plan to leave Bosnia and Herzegovina with the aim of joining ISIL. According to available information, the Bosnia and Herzegovina State Court has so far found 23 persons guilty of joining ISIL.

III. State-level institutions of Bosnia and Herzegovina

A. Bosnia and Herzegovina Presidency

43. Croat member of the Bosnia and Herzegovina Presidency Dragan Čović (HDZ Bosnia and Herzegovina) is the current Chair of the Presidency, having assumed the function from Serb member Mladen Ivanić (Party of Democratic Progress) on 17 July.

44. During the reporting period, the Bosnia and Herzegovina Presidency met monthly and focused on its Euro-Atlantic integration processes. Sessions often began with the Chair of the Council of Ministers of Bosnia and Herzegovina providing a detailed progress report on Euro-Atlantic integration, and the Presidency issuing statements of support and advice to overcome identified obstacles. On 13 September, the Presidency overcame earlier disagreements and adopted a decision accepting a transport community treaty.

45. On 20 June, then-Presidency Chair Ivanić led the Bosnia and Herzegovina delegation at a meeting of the North Atlantic Council in Brussels, where he said there was no internal consensus in Bosnia and Herzegovina on full NATO membership, but that all political representatives understood the relevance and importance of the activation of the NATO membership action plan for Bosnia and Herzegovina. In terms of fulfilling the conditions for the activation of the action plan, he highlighted the completion of a defence review by Bosnia and Herzegovina and its adoption by the Bosnia and Herzegovina Presidency in November 2016, the participation of the Armed Forces of Bosnia and Herzegovina in NATO peacekeeping operations in Afghanistan and the progress made by Bosnia and Herzegovina with regard to resolving the issue of surplus weapons and military equipment. He noted, however, that the requirement to register defence property under the ownership of the State had proven difficult, and might take years to resolve.

B. Council of Ministers of Bosnia and Herzegovina

46. The Council of Ministers of Bosnia and Herzegovina met regularly during the reporting period, holding 19 regular sessions and 1 telephone session, but its work was hampered by the lack of parliamentary majority support. One of the main priorities during the period was the preparation of answers to the European Union questionnaire, and Bosnia and Herzegovina authorities have extended the deadline to deliver a compiled set of answers to the European Commission, initially set for May, to December 2017.

47. The Council of Ministers adopted only six sets of amendments to existing legislation, and not a single new law during the reporting period. The widespread perception of its poor legislative output led to the rejection in July of the Council's annual work report for 2016 by the Bosnia and Herzegovina House of Representatives. Opposition delegates voted against the report, with the support of SBB, despite the fact that the party was part of the coalition and had representatives in the Council of Ministers.

48. The Council of Ministers eventually secured consensus for a decision with regard to Bosnia and Herzegovina joining the transport community treaty, which is an important step to unblock more than BAM 500 million in European Union funds for four infrastructure projects in Bosnia and Herzegovina. The Chair of the Council of Ministers, Denis Zvizdić (SDA), signed the treaty on behalf of Bosnia and Herzegovina in Brussels on 18 September.

C. Bosnia and Herzegovina Parliamentary Assembly

49. During the reporting period, the protracted political crisis in the country affected the performance of the Bosnia and Herzegovina Parliamentary Assembly, negatively affecting its functionality and severely reducing its legislative output.

50. The Alliance of Independent Social Democrats (SNSD) delegates continued to boycott sessions of the Bosnia and Herzegovina House of Representatives over the issue of SDA delegate Šefik Džaferović's rotation to the Speaker position and their long-held accusations of his involvement in war crimes, until Borjana Krišto (HDZ Bosnia and Herzegovina) rotated into the position on 9 August. In addition, SNSD delegates in both houses resigned from parliamentary committees in protest over the removal by the Bosnia and Herzegovina House of Representatives of SNSD delegate Nikola Špirić from the Joint Committee for Oversight of the Intelligence and Security Agency in July.

51. The durability of the ruling coalition became more doubtful following the rejection by the Bosnia and Herzegovina House of Representatives of the annual work report for 2016 of the Council of Ministers. Support by coalition partner SBB for the opposition on that issue triggered speculation about a possible vote of no confidence against the Council of Ministers, which has thus far not occurred.

52. Also contributing to the ruling coalition's instability were significant political disagreements between SDA and HDZ Bosnia and Herzegovina over amendments to the Bosnia and Herzegovina Election Law, as well as an internal rift within SDA, which led to three delegates leaving the party and establishing their own party ("Independent Bloc"), thereby weakening the presence of SDA in Parliament.

53. On 10 May, the Bosnia and Herzegovina Parliamentary Assembly rejected excise and banking deposit insurance-related legislation required for the completion of the first review under the Extended Fund Facility of IMF. The non-adoption of those laws will delay the second tranche of the Extended Fund Facility.

54. The Bosnia and Herzegovina House of Representatives held eight regular sessions during the reporting period, while the Bosnia and Herzegovina House of Peoples held only five. As a whole, the Bosnia and Herzegovina Parliament adopted only 3 pieces of legislation during the reporting period, in the form of amendments to existing legislation, and rejected 11 laws.

55. The issue of financing the Bosnia and Herzegovina Public Broadcasting System also remains unresolved in any permanent systematic manner. On 4 May, the Bosnia and Herzegovina House of Peoples rejected amendments to the existing

Public Broadcasting System law that sought to extend the temporary collection of Public Broadcasting System taxes by the telecom operators until the end of the year.

56. On 14 June, the Bosnia and Herzegovina House of Representatives held a thematic session on the Bosnia and Herzegovina Judiciary, in which many delegates expressed frustration over the insufficient prosecution of political corruption cases.

IV. Federation of Bosnia and Herzegovina

Federation coalition developments

57. During the reporting period, the Government of the Federation worked consistently, holding 24 regular sessions and 15 extraordinary sessions. However, frequent disagreements over proposed legislation continued within the ruling SDA-HDZ Bosnia and Herzegovina-SBB coalition, disrupting the functioning of the Federation Parliament, which adopted only one new law and five sets of amendments to existing legislation.

58. The stagnation of the work of the Federation House of Peoples is notable, with only two regular sessions held during the reporting period and more than a dozen important items of legislation still pending adoption, include legislation necessary to fulfil the requirements for the continuation of the Extended Fund Facility of IMF. The House session on 6 July was interrupted owing to the lack of a quorum, leaving several items of legislation unaddressed. The House finally resumed the session two and a half months later, on 21 September, and managed to adopt the draft Law on Income Tax and the draft Law on Contributions, two key reform laws.

Proposed vote of no confidence against the Government

59. On 17 May, in the Federation House of Representatives, delegates from the Democratic Front and the Social Democratic Party submitted a proposal for a vote of no confidence against the Federation Government, noting that in March the Federation House of Representatives did not adopt the Federation Government's work report for 2016 or the report on the execution of the Federation budget for 2016, and accusing the ministers of not participating in parliamentary discussions. On 26 July, the House of Representatives rejected the vote of no confidence.

Education in the Federation

60. In June, following protests by Bosniak and Croat students, parents and teachers, the Central Bosnia Canton authorities ended their effort to establish a new secondary school in Jajce municipality, a "two schools under one roof" configuration in which the students, who heretofore had attended classes together, would have had to attend separate classes according to their national (i.e., ethnic) curricula. The protesting students in Jajce called for the abolishment of all "two schools under one roof" configurations, of which there remain more than 50 throughout Bosnia and Herzegovina.

61. In September, the Embassy of Israel sent a note to the Bosnia and Herzegovina Ministry of Foreign Affairs protesting the controversial decision in 2016 by the authorities of the Sarajevo Canton to rename a local primary school after a Bosniak intellectual of the Second World War who sympathized with the Ustaša regime, "especially considering the fact that the vast majority of the Bosnian Jewish Community was brutally killed at the hand of the fascist and Nazi occupying forces with which Mr. Busuladžić identified himself".

Constitutional status of Serbs in the cantons

62. On 15 September, I addressed a letter to the leadership of the Herzegovina-Neretva Cantonal Assembly, urging them to act to harmonize the cantonal constitution with the Federation Constitution in order to ensure the constitutional equality of all three constituent peoples, specifically the Serb people, as the cantonal constitution does not explicitly reference Serbs as a constituent people or contain provisions providing for the use of Serb language as an official language or Cyrillic as an official script.

63. The Herzegovina-Neretva Canton has been under the obligation to amend its constitution in that regard since 2002, when the High Representative used his executive authority to amend the Federation Constitution in the same manner. Similar obligations remain outstanding in the Posavina Canton, West Herzegovina Canton and Canton 10.

64. On a positive note, on 31 July the Sarajevo Cantonal Assembly amended its constitution, including its provisions on the status of Sarajevo and provisions ensuring that the three constituent peoples are each guaranteed a minimum of 20 per cent representation in the Sarajevo City Council.

No agreement to enable local elections in Mostar

65. The responsible political parties continue in their failure to reach any political agreement to enact amendments to the Bosnia and Herzegovina Election Law that would enable the holding of local elections in Mostar, where there have been no local elections since 2008. Meeting in June 2017, the Political Directors of the Steering Board of the Peace Implementation Council called on the competent authorities in Bosnia and Herzegovina to "address the implementation of the decision of the [Bosnia and Herzegovina] Constitutional Court on Mostar and thus enable the holding of elections in this city".

V. Republika Srpska

66. During the reporting period, the ruling coalition led by SNSD remained functional, and the Republika Srpska government met regularly. According to available information, the Republika Srpska National Assembly held five regular sessions and one special session, and adopted 15 new laws and 15 sets of amendments to existing laws.

67. However, the first split in the ruling coalition emerged over the proposed privatization of an iron mine in Prijedor, which coalition partner Democratic People's Alliance vehemently opposed. In a rare political loss for SNSD, the Republika Srpska National Assembly rejected the proposal in May. The ruling coalition, briefly shaken, eventually returned to normal.

68. Two major political trends persisted in the Republika Srpska, both of which have perpetuated the ongoing crisis in the country. The first was caused by rising tensions between Sarajevo and Banja Luka over the registration of defence property, the Republika Srpska calling into question the path of Bosnia and Herzegovina towards Euro-Atlantic integration and repeated calls for Republika Srpska unity with Serbia. The second trend has been the constant political power struggle between the ruling Republika Srpska coalition and the opposition parties gathered under the "Alliance for Change". The struggle culminated in September with the incident in the Republika Srpska National Assembly over the report of the Auditor General of the Office of Supreme Auditing of the Republika Srpska and his subsequent forced resignation.

69. On 29 August, the ruling coalition party Presidents agreed that they would seek to suspend a Republika Srpska National Assembly declaration on the path of Bosnia and Herzegovina towards Euro-Atlantic integration and replace it with conclusions advocating the military neutrality of the country, in line with the declared military neutrality of Serbia. They also indicated that the Republika Srpska National Assembly would adopt a new law that would prevent the registration of defence property under the ownership of the Bosnia and Herzegovina State without prior consent from the Republika Srpska National Assembly.

70. On 17 October, the Republika Srpska National Assembly passed a resolution on the protection of the constitutional order and assuring the military neutrality of the Republika Srpska, which represented a serious shift in Republika Srpska policy regarding NATO integration, abandoning the NATO Partnership for Peace path, to which Republika Srpska representatives had committed themselves through the Republika Srpska National Assembly conclusions in 2005, and to which Bosnia and Herzegovina had committed itself through the decision of the Bosnia and Herzegovina Presidency in 2009, to seek activation of the NATO membership action plan for Bosnia and Herzegovina, which remains in force. It is my view that decisions of the Bosnia and Herzegovina Presidency remain in force unless they are repealed or subsumed. Apart from declaring the Republika Srpska in favour of military neutrality, the resolution targets the Republika Srpska opposition by threatening sanctions against officials who do not comply with the policy established therein.

71. The Republika Srpska National Assembly adopted the resolution at the insistence of the ruling coalition, while opposition parties argued it was unnecessary. Under circumstances similar to the tumultuous Republika Srpska National Assembly session on 12 and 13 September, the Republika Srpska National Assembly leadership prevented the opposition parties from being present during the voting.

72. Despite friction between the Republika Srpska and State-level authorities, cooperation between the entity governments, led by Republika Srpska Prime Minister Željka Cvijanović and Federation Prime Minister Fadil Novalić, could be characterized as positive and pragmatic. On 4 October, the two governments held a joint session in Sarajevo and announced cooperative efforts to battle the grey economy in both entities.

Non-cooperation with the High Representative

73. The Republika Srpska government continues to deny my Office access to official information and documents, as required under annex 10 of the General Framework Agreement for Peace. Article IX of annex 10 obliges all authorities in Bosnia and Herzegovina to fully cooperate with the High Representative. Repeated calls by the Steering Board of the Peace Implementation Council reminding the Republika Srpska authorities of their obligations in that regard have had no impact. The practice of the Republika Srpska government of not providing information and documents requested by the Office of the High Representative dates from 2007, and contradicts frequent Republika Srpska claims that the entity respects the letter of the Framework Agreement.

74. On 18 October, the President of the Republika Srpska took the unprecedented step of informing media that he had considered arresting the head of my Office in Banja Luka due to her alleged presence and activities in the building of the Republika Srpska National Assembly during the session on 17 October. The comments were disturbing and unacceptable because my staff has immunity under the Vienna Convention on Diplomatic Relations and the authority under the General

Framework Agreement for Peace to monitor parliamentary sessions throughout the country, which are open to the public anyway. As a matter of standard practice and in line with the mandate of the Office of the High Representative, designated Office staff regularly monitor sessions of parliamentary bodies across the country. The comments were also untrue, as the Head of Office was not present at the premises of the Republika Srpska National Assembly before, during or after the session on 17 October.

VI. Entrenching the rule of law

Draft law on Bosnia and Herzegovina courts

75. The jurisdiction of the Bosnia and Herzegovina State Court is still a major point of contention between the Republika Srpska and other political authorities, and is preventing the adoption of a new law on Bosnia and Herzegovina courts. A working draft included provisions for the Bosnia and Herzegovina State to maintain its current criminal jurisdiction over organized crime and corruption, alongside alternate provisions reflecting the view of the Republika Srpska, which seeks limitations on Bosnia and Herzegovina State jurisdiction. An agreement was sought within the European Union-led process of the Structured Dialogue on Justice, and in July 2017 an updated version was offered that would preserve the State-level jurisdiction to fight specific types of crime. However, that solution was not accepted. If work on the new piece of legislation continues, I wish to clearly emphasize that the State-level jurisdiction must not be diminished, as it follows the division of competencies between the Bosnia and Herzegovina State and the entities under the Constitution of Bosnia and Herzegovina.

Other developments

76. In July, the criminal case against suspects in the case of the unconstitutionally conducted Republika Srpska referendum of 25 September 2016, which violated two final and binding decisions of the Constitutional Court of Bosnia and Herzegovina, came to a halt. While it is a criminal offence under article 239 of the Criminal Code of Bosnia and Herzegovina to fail to implement decisions of the Constitutional Court of Bosnia and Herzegovina, and the Office of the Prosecutor in Bosnia and Herzegovina opened an investigation and questioned the President of the Republika Srpska on his role, the ensuing indictment presented to the Court of Bosnia and Herzegovina was brought only against members of the Republika Srpska Referendum Commission. The Court of Bosnia and Herzegovina rejected the indictment as not containing evidence that the persons charged therein could have prevented the referendum as the Constitutional Court of Bosnia and Herzegovina ordered, effectively closing the case.

77. Another example of the deterioration in the entrenchment of rule of law that requires my attention is the direct rejection by the Republika Srpska authorities of the applicability of Bosnia and Herzegovina-level judicial decisions in that entity. Thus, the Republika Srpska authorities continue to ignore the Bosnia and Herzegovina State Court's decision on a prospective defence property location in Han Pijesak, in the Republika Srpska.

Domestic war crimes cases

78. On 9 October, the Court of Bosnia and Herzegovina, in its first instance verdict, acquitted the wartime commander of the Army of Bosnia and Herzegovina forces in Srebrenica, Naser Orić, along with fellow former Army officer Sabahudin

Muhić, of war crimes against prisoners of war. Mr. Orić and Mr. Muhić were accused of participating in the killings of three Serb prisoners.

79. The International Tribunal for the Former Yugoslavia had previously tried Mr. Orić for command responsibility in relation to an incident in which several Serbs were allegedly detained in the Srebrenica police station and subjected to physical abuse, including instances of detainees being beaten to death. After initially convicting and sentencing Mr. Orić in June 2006, the International Tribunal ultimately acquitted him two years later on appeal, and ordered his release.

80. The October acquittal by the Court of Bosnia and Herzegovina sparked fierce reactions from a number of Republika Srpska politicians, who heavily criticized the Bosnia and Herzegovina judiciary for its handling of war crimes cases in which the victims were Serbs.[4] The President of the Republika Srpska went further, calling on Serbs in the State judiciary to withdraw from the institutions and organizing a meeting with coalition partners in the Republika Srpska where it was concluded, inter alia, that the option of holding a referendum in the Republika Srpska on the State judiciary should remain in force.

Entity anti-corruption efforts

81. The specific legislation in the Federation on a special prosecutor and court department for fighting corruption and organized crime, which was passed in 2014, remains unimplemented.

VII. Public security and law enforcement, including intelligence reform

82. The practice of improper political interference in operational policing has not diminished during the reporting period. Tuzla Canton has yet to adhere to the basic standards of rule of law, refusing to implement the financial independence of the police, originally required in 2010, due to improper political influence. Sarajevo cantonal authorities resisted the implementation of the legal and financial independence of the Sarajevo Canton police until combined pressure from the international community ultimately unblocked the process in July 2017. Problems still remain in Sarajevo, and include possible legislative changes that would result in more political control over the police. The Una-Sana Canton needs to implement the legal and financial independence of the police in time for the 2018 budget year.

83. The appointment of a new police commissioner in Canton 10 has been outstanding since December 2014. The January 2015 appointment of the Federation Administration Police Director remains unresolved due to an ongoing court dispute. The appointment of the Federation Independent Board for police remains outstanding since 2015. The mandate of the Independent Board in Herzegovina-Neretva Canton ended in March 2017 and the procedure of appointing a new Board remains stalled. In West-Herzegovina and Sarajevo Cantons, Independent Boards show signs of improper political interference. In May 2017, the Sarajevo cantonal government appointed a new police commissioner.

[4] "The Court and Prosecutor's Office cannot exist at the level of [Bosnia and Herzegovina] since the Dayton Agreement was amended to the detriment of Serbs under the pressure of the [international community]." Milorad Dodik, *SRNA*, 10 October 2017.

VIII. Economy

84. Available economic indicators for the first seven months of 2017 are encouraging when compared with the corresponding period in 2016. Early estimates show that economic growth of 2.7 per cent has been sustained over the first three quarters of the year. Exports are up by 16.9 per cent and imports are up by 11.8 per cent. Industrial production increased by 2.6 per cent. Of note are a 5.9 per cent drop in unemployment at the end of June and a 28.7 per cent increase in foreign direct investments in the first quarter of 2017. Other macroeconomic indicators such as inflation and average income show no major changes compared with the previous period.

85. Those marginal improvements in economic indicators, while encouraging, should not be overestimated. The administrative unemployment rate is 39.4 per cent, which translates into nearly half a million persons registered as unemployed. Of continued concern is the youth unemployment level, which the World Bank estimates at 54.3 per cent. Even those with a steady income struggle to make ends meet, with the average monthly salary of BAM 851 (approximately EUR 425) and the average monthly pension of BAM 360 (approximately EUR 180) falling well short of the monthly estimated consumer basket. That gives rise to brain drain. Of 137 economies subject to analysis, the World Economic Forum ranks Bosnia and Herzegovina 135th in ability to retain talent and 136th in capacity to attract talent. Of additional concern is the Bosnia and Herzegovina Central Bank figure of 74,837 companies having one or more blocked accounts, which is the highest number to date and indicates serious liquidity problems in the Bosnia and Herzegovina business community.

86. Economic ratings in the reporting period also indicate problems in several areas, as compared with other countries in the region. The United Nations Conference on Trade and Development *World Investment Report 2017* ranked Bosnia and Herzegovina fourth in foreign direct investment inflows in South-eastern Europe in 2016. The Heritage Foundation 2017 Index of Economic Freedom ranked Bosnia and Herzegovina ninety-second of 180 countries and thirty-sixth of 44 countries in Europe, which advanced Bosnia and Herzegovina into the ranks of the "moderately free" countries, although with the caveat that the overall entrepreneurial environment remains one of the region's most burdensome. The *Human Development Report 2016* of the United Nations Development Programme ranked Bosnia and Herzegovina eighty-first of 188 countries in terms of human development. On 8 September, Standard & Poor's Ratings Services affirmed the credit rating of Bosnia and Herzegovina at "B with stable outlook".

87. The banking sector is assessed as generally stable and liquid. According to the entity banking agencies, the Federation and Republika Srpska banking sectors' net profit in the first half of the year totals BAM 152 million and BAM 63 million, respectively. However, the calls by the President of the Republika Srpska to reorganize the Central Bank of Bosnia and Herzegovina raise serious concerns. Under the General Framework Agreement for Peace, the Central Bank is the sole authority for issuing currency and for monetary policy throughout Bosnia and Herzegovina. The Law on the Central Bank of Bosnia and Herzegovina additionally affirms the Central Bank as a State-level institution and provides for its full independence from the Federation, the Republika Srpska and any other public agency or authority, and regulates the distribution of Central Bank net profits, including to the budget of Bosnia and Herzegovina. Any attempt to question the Central Bank, its status or responsibilities represents a serious challenge to the State and its General Framework Agreement for Peace-defined competencies and

institutions. Moreover, it is a threat to the monetary and financial stability of the country.

Fiscal issues

88. During the reporting period, Bosnia and Herzegovina did not benefit from IMF disbursements, as the authorities failed to complete all the measures required for the completion of the first performance review of Bosnia and Herzegovina under the IMF Extended Fund Facility arrangement. Budget stability was nonetheless maintained, mostly due to the sustained growth of indirect tax revenue (collection was 7.8 per cent higher in the first eight months of 2017 than over the same period in 2016) and domestic borrowing. Also of note is the 8 August settlement by the Russian Federation of its USD 125.2 million debt to Bosnia and Herzegovina, stemming from the commodity exchange between the former Union of Soviet Socialist Republics and the former Socialist Federal Republic of Yugoslavia, which was apportioned to the State (10 per cent), the Federation (58 per cent), the Republika Srpska (29 per cent) and the Brcko District (3 per cent). However, fiscal challenges are evident and likely to increase by the end of 2017.

89. While the financing of State-level institutions allows them to cover basic current expenditures, it is insufficient to allow for their full functioning and the fulfilment of their obligations. The budget for State institutions has been locked at the same level since 2012, mainly due to political interest on the part of Republika Srpska in weakening the State.

90. According to the Debt Managing Department of the Republika Srpska Ministry of Finance, the total debt of the Republika Srpska as of the end of May 2017 amounted to BAM 5.38 billion. On 18 August, as has happened often in the past, the Office of Supreme Auditing of the Republika Srpska revealed higher deficits and debt than reported by the Republika Srpska government. In the absence of IMF disbursements, the Republika Srpska government continued to borrow from the local capital market, raising BAM 290 million from the issuance of treasury bills and bonds in 2017. The total borrowing through the sale of government securities in 2017 is planned to be BAM 350 million. Since 2015, the Republika Srpska government has been negotiating a new loan to reschedule its debt to maintain budget liquidity, but all efforts to that end have failed thus far. The main challenges in the forthcoming period stem from the Republika Srpska budget's high debt burden and low liquidity, the Republika Srpska corporate-sector debt of over BAM 10 billion and the Republika Srpska health-sector debt of over BAM 1 billion. The stability of the Republika Srpska pension system also remains an issue of concern.

91. Based on its budget execution report, the Federation Government reported a surplus of BAM 60.8 million in the first half of 2017. In order to additionally affirm its ability to service the planned expenditures, the Federation Ministry of Finance cancelled three planned auctions of government securities of around BAM 70 million. However, considering that the bulk of foreign and domestic debt payments, as well as other expenditures (e.g., certain direct transfers), are due in the second half of the year, maintaining budget stability could be a significant challenge for the Federation Government, especially in the last quarter of the year, when most of the expenditures are due. Fiscal pressures may also increase as a result of demands from 60,000 to 70,000 demobilized unemployed veterans for the regularization of their status and monthly allowances at the minimum pension level of BAM 326, for which the Government would need to provide BAM 280 million each year. Pressure could also come from agricultural producers demanding the settlement of outstanding subsidies and damages caused by natural disasters. There is also a demand for a 10 per cent increase in pensions to 408,000 Federation pensioners. As

in the Republika Srpska, maintaining the stability of the Federation pension system remains a challenge.

92. In the first half of the year, the cantons registered a total surplus of BAM 137.2 million and hopefully halted the trend of increasing the accumulated cantonal deficit. However, financial constraints are still evident, and they increase the cantons' dissatisfaction with revenue allocation (including foreign debt payment) at the Federation level, creating political tensions among the cantons and between the cantons and the Federation.

93. On 23 June, the Brcko District Assembly finally adopted the Brcko District budget for 2017 in the amount of BAM 232.3 million, a 12.6 per cent decrease over 2016. Fiscal problems in the Brcko District result mainly from political party disputes over budget allocations and non-transparent and fiscally irresponsible spending.

International obligations and other issues

94. On 1 April, the Energy Community reintroduced sanctions against Bosnia and Herzegovina, originally introduced in October 2015 but suspended in October 2016, due to the country's failure to follow through on its agreement to adopt a State-level law addressing breaches of obligations arising from the Energy Community Treaty. The outstanding obligations of Bosnia and Herzegovina are likely to feature in the next Energy Community Ministerial Council meeting, scheduled for 14 December.

95. On 29 June, the Federation Government adopted a proposal to dismiss four Federation members of the Management Board of the Independent System Operator in Bosnia and Herzegovina due to the expiration of their mandates and to replace them on a temporary, three-month basis. The proposed temporary appointments are in contravention of the relevant legislation at the State and Federation levels and the principle of continuity of office that guarantees the unimpeded functioning of institutions in the case of delayed appointments.

96. Further to the Republika Srpska government's conclusion of 16 March, requesting that the Ministry of Transport and Communications of the Republika Srpska initiate a review of the agreement between the Federation and the Republika Srpska on the establishment of a joint public railway corporation as part of the transportation corporation, concluded in 1998 under annex 9 of the General Framework Agreement for Peace, the corporation has been faced with financial constraints due to restricted financing by the Republika Srpska. That is a worrisome trend that could pose a threat to the stability of the Bosnia and Herzegovina Public Railway Corporation, which is the only corporation established thus far under annex 9 and is crucial for proper railway-sector coordination and harmonization.

IX. Return of refugees and displaced persons

97. Upholding the right of refugees and displaced persons to return to their pre-war homes remains central to the full implementation of annex 7 of the General Framework Agreement for Peace, which requires authorities at all levels to create in their territories the political, economic, and social conditions conducive to the voluntary return and harmonious reintegration of refugees and displaced persons, without preference for any particular group.

98. The continued rhetoric on the dissolution of Bosnia and Herzegovina by Republika Srpska authorities does not contribute to a conducive environment for the return and integration of refugees and displaced persons in that regard.

99. In addition, I remain concerned by ongoing difficulties returnees face in the field of education in several local communities throughout the country.

X. Media developments

100. The Bosnia and Herzegovina Public Broadcasting System continued to face challenges to its financial sustainability and political independence. Two of the three public broadcasters have recently entered into contracts with a public electricity company, which allows the company to collect taxes for the Public Broadcasting System as part of citizens' electricity bills. That is a modest step towards improving the financial situation for those two broadcasters, and the model should be applied throughout Bosnia and Herzegovina.

101. Full financial consolidation of the Public Broadcasting System will require a permanent solution to tax collection and the serious restructuring of the entire system. Specifically, the three broadcasters that comprise the Public Broadcasting System should register as a joint legal entity and at a minimum jointly operate finances, technical equipment and digitalization. That would allow for cost savings and a reduction in employees (the three broadcasters currently employ some 1,500 persons).

102. Biased and politically influenced reporting plagues public broadcasting. Radio Television Republika Srpska (RTRS), in particular, has been sanctioned by the Communications Regulatory Agency of Bosnia and Herzegovina for not complying with the programming principles and having biased current affairs programmes.

XI. Defence matters

103. In mid-June, the Council of Ministers of Bosnia and Herzegovina discussed the report on implementation of the Bosnia and Herzegovina defence review, according to which all planned activities were proceeding without significant delay. However, because the implementation of the new force structure is contingent upon the activation of the NATO membership action plan, there has been no actual concrete progress. Although the official view of the authorities is that activation of the action plan for Bosnia and Herzegovina is expected by the end of the year, the lack of sufficient progress in certain areas, particularly with regard to the registration of prospective defence property, as well as the move of the Republika Srpska towards a declaration of military neutrality, raise questions about the likelihood of the activation of the action plan in the near future.

XII. European Union military force

104. I welcome the conclusion of the Foreign Affairs Council of the European Union on 16 October to continue the executive military role of the European Union military mission in Bosnia and Herzegovina (EUFOR) under a renewed United Nations mandate. EUFOR plays an ongoing vital role in supporting the efforts of Bosnia and Herzegovina to maintain a safe and secure environment, which in turn assists my Office and other international organizations in fulfilling their respective mandates. The presence of EUFOR on the ground, including its liaison and observation teams, remains an important contributing factor to the stability and security of the country.

XIII. Future of the Office of the High Representative

105. The Political Directors of the Steering Board of the Peace Implementation Council met in Sarajevo on 6 and 7 June 2017 to assess the progress in implementing the General Framework Agreement for Peace, as well as to underline their unequivocal commitment to the territorial integrity and sovereignty of Bosnia and Herzegovina and their full support to me as the High Representative in ensuring respect for the Framework Agreement and carrying out my mandate in accordance with annex 10 of the Agreement and relevant resolutions of the Security Council. The Steering Board also reinforced the need to complete the five objectives and two conditions necessary for the closure of the Office of the High Representative. The next meeting of the Steering Board is scheduled for December 2017 in Sarajevo.

106. My Office continues its fiscally responsible approach to budget planning. Since the beginning of my mandate in March 2009, the budget of the Office of the High Representative has been reduced by more than 53 per cent and its staff by more than 58 per cent. Keeping in mind those significant cuts, it is important to highlight that, given the realities of the situation on the ground and in accordance with annex 10 of the General Framework Agreement for Peace, I must remain equipped with the budget and staff required to carry out my mandate effectively.

XIV. Reporting schedule

107. In keeping with the practice of submitting regular reports for onward transmission to the Security Council, as required under Council resolution 1031 (1995), I herewith present my eighteenth regular report. I would be pleased to provide additional information should the Secretary-General or a member of the Security Council require it at any time. The next regular report to the Secretary-General is scheduled for April 2018.